Canada. Government
Memorandum of Agreement
between the government of Canada
and the government of Alberta...

MEMORANDUM OF AGREEMENT

between

THE GOVERNMENT OF CANADA

and

THE GOVERNMENT OF ALBERTA

relating to

ENERGY PRICING AND TAXATION

September 1, 1981

ENERGY PRICING AND TAXATION

(Table of Contents)

Related Schedules

TABLE OF CONTENTS (Cont'd)

SCHEDULES

Energy Pricing and Taxation

The Government of Canada and the Government of Alberta are agreed on the following matters relating to the pricing and taxation of crude oil, natural gas and synthetic crude oil and natural gas liquids produced in Alberta.

1. Term of Agreement

The term of this Agreement commences on September 1, 1981 and expires on December 31, 1986, except as otherwise provided in this Agreement.

2. Prices for Conventional Old Oil

The Governments of Canada and Alberta are agreed that the overall average field price of conventional old oil will increase from the present price of $18.75 per barrel, with the first increase effective on October 1, 1981, the second on January 1, 1982 and thereafter every six months, in accordance with Table 1, but subject to the condition that the overall average field price of conventional old oil plus transportation costs to Montreal, adjusted for quality, will not exceed 75% of the actual international price of oil as defined in Schedule A.

TABLE 1

FIELD PRICES OF CONVENTIONAL OLD OIL

($/bbl)

	Increase	Level
Oct. 1, 1981	2.50	21.25
Jan. 1, 1982	2.25	23.50
July 1, 1982	2.25	25.75
Jan. 1, 1983	4.00	29.75
July 1, 1983	4.00	33.75
Jan. 1, 1984	4.00	37.75
July 1, 1984	4.00	41.75
Jan. 1, 1985	4.00	45.75
July 1, 1985	4.00	49.75
Jan. 1, 1986	4.00	53.75
July 1, 1986	4.00	57.75

For the purposes of this Agreement, "old oil" means oil recovered from a pool initially discovered prior to January 1, 1981 but does not include incremental oil referred to in section 3 of this Agreement. Schedule A provides for the manner of calculating the overall average field price of conventional old oil, transportation costs to Montreal, adjustments for quality, and procedures for ensuring that the 75% limitation will not be exceeded.

It is intended that the price for any quality of conventional old oil will not exceed the New Oil Reference Price for the same quality of oil.

3. New Oil Reference Price

Effective January 1, 1982, a New Oil Reference Price (NORP) will apply to new oil, that is to say, conventional new oil in Alberta, synthetic oil (including existing Suncor and Syncrude production) and oil from Canada Lands. There will be a special phase-in provision for Syncrude production.

"Conventional new oil" in Alberta means

- oil from pools initially discovered after December 31, 1980;
- "incremental oil", as determined by the fixed ratio method, recovered from pools or portions of pools subject to enhanced recovery schemes (other than waterflood schemes) commencing operation after December 31, 1980; and
- crude bitumen obtained from experimental and non-integrated oil sands projects commencing operation after December 31, 1980.

The quality of reference oil for the NORP will be 38° API and 0.5% sulphur for oil other than synthetic oil, and 32° API and zero % sulphur for synthetic oil, delivered at Montreal. Schedule B provides for the calculation of quality adjustments to the reference oil and for the calculation of the NORP supplement.

(a) Base Prices

The NORP "base prices" are those shown in Table 2 under the heading "Delivered at Montreal".

TABLE 2

NEW OIL REFERENCE PRICE SCHEDULE

($/barrel)

		Delivered At Montreal	Estimated Wellhead
1982	January 1	47.30	45.92
	July 1	50.60	49.22
1983	January 1	54.50	53.06
	July 1	58.50	57.06
1984	January 1	61.70	60.18
	July 1	65.00	63.48
1985	January 1	68.40	66.83
	July 1	71.80	70.23
1986	January 1	75.70	74.08
	July 1	79.10	77.48

Table 2 applies to the end of 1986. It is the intention of both governments that a NORP base price schedule for the period after 1986 will be established as part of any future agreement.

(b) Price Ceiling

The NORP (adjusted to the average quality of imported crude oil laid down at Montreal) will not exceed 100% of the actual international price of oil. (Schedule B, section 3, provides procedures for ensuring that the 100% limitation will not be exceeded.)

(c) Further Limitation on Prices

Prices for oil of particular qualities will not consistently exceed the prices of international oil of equivalent qualities, compared at Montreal. In the event that such a situation develops, a review will be made of the manner of calculating quality differentials in order to correct such a situation.

(d) Determination of the New Oil Reference Price in 1985 and 1986

Starting January 1, 1985, the NORP applicable to each half-year in 1985 and 1986 will be the greater of

(i) the base price as shown in Table 2, and

(ii) the phased-in moving average of actual international prices as set out in Schedule B, section 4,

but in no event will exceed the actual international price, adjusted for quality as per Schedule B.

(e) Administration

Schedule B, section 5, provides for the manner in which the payment of NORP supplements to producers will be administered. The "NORP supplement" is the difference between the conventional old oil price and the NORP.

(f) Prices for Syncrude Production

There will be special phase-in provisions for prices for Syncrude production, as follows:

- to and including June 30, 1982, the actual international price;
- July 1, 1982 to and including June 30, 1984, the greatest of
  - (i) the New Oil Reference Price;
  - (ii) the phased-in Syncrude moving average of actual international oil prices as set out in Schedule B, section 6, and
  - (iii) the average price actually received for June, 1982 Syncrude production,

  but in no event exceeding the actual international price adjusted for quality as per Schedule B.
- July 1, 1984 to and including December 31, 1986, the greater of
  - (i) the New Oil Reference Price, and
  - (ii) the two-year moving average (as set out in Schedule B, section 4(a)) of the actual international price, adjusted for quality as per Schedule B,

but in no event exceeding the actual international price, adjusted for quality as per Schedule B.

4. Natural Gas Prices

(a) Prices

During the term of this Agreement, natural gas destined for domestic markets east of Alberta shall be priced at the Alberta border. The Alberta border price in effect on September 1, 1981 shall be increased by 25 cents per Mcf commencing February 1, 1982 and thereafter shall be increased by 25 cents per Mcf every six months. The price will be converted to cents per gigajoule in the traditional manner determined by the National Energy Board.

(b) The "Flowback" System

Both governments agree in principle to the continued use of the system of revenue "flowback" resulting from sales of gas in the United States.

(c) Market Development Incentive Payments

The Government of Alberta will make Market Development Incentive Payments to the Government of Canada, as described in Schedule C, to facilitate the expansion of gas markets in provinces east of Alberta. It is the intention of both Governments to continue Market Development Incentive Payments as part of any future agreement.

(d) Export Approvals

The Government of Canada intends, in the exercise of its authority over natural gas exports, and consistent with the provisions of the National Energy Board Act, to accord fair and equitable treatment to producers in the provinces and the Canada Lands seeking approval of additional exports.

Subject to considerations of overriding national interest, if the National Energy Board determines that there is an exportable surplus, it is the intention of the Government of Canada to authorize additional exports.

5. Natural Gas Liquids

The Government of Canada and the Government of Alberta agree that increased domestic use of natural gas liquids could make an important contribution to attainment of Canada's objective of reduced oil imports. The two Governments agree to commence early discussion of ways of increasing the share of Canadian production used in the domestic market.

6. Petroleum Compensation Charge

The Government of Canada may levy the Petroleum Compensation Charge (PCC) and specify its rate.

Subject to the fiscal undertakings contained in this Agreement, it is the intention of the Government of Canada to set the level of the PCC so as to leave no

revenue in excess of the amount required to finance oil import compensation and oil qualifying for the New Oil Reference Price, over the period 1981-1986.

7. Natural Gas and Gas Liquids Tax

The Government of Canada will levy the Natural Gas and Gas Liquids Tax (NGGLT) on domestic natural gas and natural gas liquids - ethane, propane and butane.

The Government of Canada agrees to reduce the NGGLT to a zero rate on exports of natural gas originating in an agreeing province. This decision is without prejudice to the Government of Canada's position that it has the right to levy such a tax. The zero rate would remain in effect for the period of the agreement. In the case of exports of Alberta natural gas, the zero rate would commence on October 1, 1981.

The tax on exports of propane and butane will remain and will be set equal to the rate on those products sold in the domestic market. There will be a refund of the NGGLT for all ethane produced in Alberta exported between September 30, 1981 up to and including the last day of the Agreement.

It is the intention of the Government of Canada to establish the level of the NGGLT on domestic sales so that, taking into account a range of factors, including gas transportation costs, the parity relationship between the wholesale price of natural gas at the Toronto City Gate and the average price of crude oil at the Toronto Refinery Gate will be approximately 65%.

8. Petroleum and Gas Revenue Tax and Incremental Oil Revenue Tax

The Government of Canada may levy a Petroleum and Gas Revenue Tax (PGRT) and an Incremental Oil Revenue Tax (IORT).

Subject to the fiscal undertakings contained in this Agreement, it is the intention of the Government of Canada to set the rate of PGRT at 16% effective January 1, 1982. There will be a 25% resource allowance, as described in Schedule D.

The rate of PGRT on the Alsands and Cold Lake synthetic oil projects will be reduced from 16% to 10.67% until the particular project achieves payout.

Subject to the fiscal undertakings contained in this Agreement, it is the intention of the Government of Canada to introduce an Incremental Oil Revenue Tax effective January 1, 1982 at a rate of 50% on incremental old oil revenues after deduction for the related Crown royalties, as described in Schedule D.

Suncor will receive, effective January 1, 1982, the NORP price for all of its synthetic oil production. On its pre-expansion volumes, which will be deemed to be 75% of total production, the difference between NORP and the conventional oil price schedule in the National Energy Program will be treated as incremental revenue for purposes of the Incremental Oil Revenue Tax, and will be subject to this tax.

In order to ensure that the combined federal and provincial fiscal burdens do not result in the shutting in of production that would otherwise be economically viable, the two governments agree to discuss, with the governments

of other producing provinces, the question of low productivity wells with a view to determining what, if any, special measures may be required.

9. Income Tax Changes

The Government of Canada will amend the resource allowance in the Income Tax Act, effective January 1, 1982. The resource allowance on production profits from the operation of an oil or gas well will be restructured to make it available to the total production profits before the deduction of royalties payable to others, unless such royalty income is itself liable for non-deductible provincial levies. Those with an interest in production whose tax liability is unaffected by the non-deductibility of Crown royalties or provincial mineral taxes, will no longer receive a resource allowance.

For purposes of the Income Tax Act, earned depletion in the Canada Lands will be phased out according to the following schedule: 33% in 1982, 20% in 1983, 10% in 1984 and zero thereafter. Earned depletion or an equivalent incentive will be retained for new synthetic oil projects and for prescribed enhanced oil recovery projects. Given the availability of the New Oil Reference Price and appropriate royalty regimes, such prescription will only be made in exceptional circumstances in which the incentive is necessary to ensure an adequate economic return.

The Income Tax Act will be altered to provide that income from a new synthetic oil project or a major expansion of an existing project, as approved, may not be sheltered by deductions stemming from expenditures which are not

incurred in the construction, operation, or maintenance of the approved project.

Subject to the fiscal undertakings contained in this Agreement, it is not the intention of the Government of Canada to make other changes to the corporate income tax related specifically to the oil and gas producing industry. Nothing in this Agreement shall prevent the Government of Canada from making changes of general application not specifically related to the oil and gas producing industry.

10. Alberta Royalties and Freehold Mineral Tax

Subject to the fiscal undertakings contained in this Agreement, the Government of Alberta agrees to maintain the existing systems for the levying of royalties on Crown oil and gas and mineral tax on freehold oil and gas, and for delivery of exploration and development incentives pertaining to the recovery of these resources.

Specifically,

(a) The methods for calculating royalty rates on conventional oil production from Crown Lands shall remain as set out in existing legislation. In this regard, the Government of Alberta shall maintain the distinction between "old" and "new" oil for royalty purposes as defined by the existing legislation.

(b) The methods for calculating royalty rates on natural gas and pentanes plus, and the rates levied on propane, butanes and sulphur, shall remain as set out in existing

legislation. The procedures for calculating the gathering and processing allowances shall be maintained and applied as at present.

(c) Benefits obtained under the exploratory drilling and geophysical incentive programs shall be maintained at not less than existing rates within the existing structures. These include the royalty-free periods currently applied to new discovery wells for crude oil and natural gas.

(d) Royalty reductions on approved enhanced recovery schemes will continue as provided under sections 4.1 and 4.2 of the Petroleum Royalty Regulations.

(e) Royalties or joint venture payments levied on synthetic oil production and other products from the Suncor and Syncrude projects will be calculated and collected as provided under existing regulations or as agreed with the project participants.

(f) The methods for calculating mineral tax to be paid on freehold petroleum and natural gas shall remain as set out in existing legislation.

During the term of this Agreement, the Government of Alberta agrees not to adjust or modify its current royalty and freehold tax system so that it will generate more revenue for the Government of Alberta than continuance of the system now in effect would yield.

The Government of Alberta, however, during the term of this Agreement may adjust tax rates on freehold oil and gas and royalty rates on Crown oil and gas so as to ensure an equitable distribution of the increased revenues provided for by this Agreement between freehold and Crown production.

The Government of Alberta may make changes to its corporate income tax relating to earned depletion

consistent with those referred to in section 9 of this Agreement.

Subject to the fiscal undertakings contained in this Agreement, it is not the intention of the Government of Alberta to make other changes to the corporate income tax related specifically to the oil and gas producing industry. Nothing in this Agreement shall prevent the Government of Alberta from making changes of general application not specifically related to the oil and gas producing industry.

11. Alberta Royalties on Alsands and Cold Lake

The Government of Alberta will provide a royalty formula applicable to the Alsands and Cold Lake oil sands projects. The royalty formula will consist of two components:

- A gross production royalty, phased-in at a rate of 2% every 18 months, to a maximum level of 10% until payout of pre-production costs. "Payout" occurs when cumulative net operating profits minus gross royalty exceeds total pre-production costs.

- Following payout, a royalty to consist of 30% of net operating profits minus capital costs in the year or the 10% gross royalty, whichever is greater. "Net operating profits" is defined as gross revenues from the project minus approved operating costs.

The Government of Alberta and the Government of Canada believe that the combination of royalties and taxes described in this Agreement, coupled with the New Oil Reference Price for the products from the two projects, will generate adequate rates of return on investment for the large Canadian or foreign companies participating in the Alsands and Cold Lake projects. The Government of Alberta recognizes, however, that many small Canadian companies or parties, under certain tax situations, normally would not invest in these large high-risk projects.

To encourage additional Canadian participation in oil sands development, the Government of Alberta agrees to provide a grant that will not be taxed by either government to Canadian-owned and controlled companies or consortia commensurate with the size of their investment.

Individual "Canadianization grants":

- shall consist of an amount not exceeding 15% of the total capital costs invested by an approved Canadian company;

- shall be given to companies lacking sufficient taxable income for purposes of claiming normal corporate tax deductions;

- in the aggregate shall not exceed $600 million for the two projects (on the assumption that each project is constructed to achieve the production levels approved in permits issued by the Alberta Energy Resources Conservation Board).

The Government of Alberta shall administer the approval and application of the Canadianization grants according to guidelines to be developed.

12. Petroleum Incentives Program

The Petroleum Incentives Program (PIP) has been designed by the Government of Canada to have nation-wide effect. The Government of Canada will modify the program to permit agreements under which a province could undertake to administer and fund the portion of the program that relates to activities occurring within the province. The Government of Canada and the Government of Alberta will enter into an agreement as follows:

(a) The Government of Alberta will administer and pay the incentives under the program for activities within Alberta. There will be no upper limit on these expenditures, which will relate to eligible costs and expenses incurred between January 1, 1981 and December 31, 1986.

(b) The PIP will be amended by the Government of Canada to exclude expenditures on integrated oil sands projects from the definition of eligible expenditures under the Program.

Authority to be Exercised by the Government of Alberta

(c) The Government of Alberta may make and amend its own rules with respect to the administrative aspects of the Alberta portion of PIP, such as:

- time limits for applying
- frequency of application
- forecasts of eligible costs and expenses
- design and preparation of forms and other program documents
- enforcement rules and penalties
- requirements for the submission of information by applicants and the retention of documentation by applicants
- confidentiality of and access to information obtained under the Program.

(d) The Government of Alberta may determine its own administrative policies and practices, such as in the areas of the exercise of discretion under the Program, establishing audit and enforcement criteria, making advance rulings, and issuing interpretation bulletins.

Authority to be Exercised by the Government of Canada

(e) The Government of Canada may make and amend the rules which the Government of Alberta will administer in the following aspects of the Program:

- the PIP incentive rates schedule (see paragraph f)
- the Canadian Ownership Rate ("COR") and Canadian Control Status ("CCS") rules
- the definitions of costs and expenses that are eligible for incentives

- the definitions of entities that are eligible applicants under the program

(f) The Government of Canada will administer the COR and CCS rules

(g) The Government of Canada may make and amend the Canadianization rule governing the farm-out deals between low and high-COR entities involving in excess of $100 million of incentives in a year where such farm-outs involve more than one jurisdiction. In such cases, the Government of Alberta will pay for the incentives on expenditures taking place in Alberta provided that the Government of Alberta is satisfied that such expenditures qualify for incentives.

Areas of Shared Authority

(h) Notwithstanding the fiscal undertakings in this Agreement (section 14), any change in PIP incentive rates as specified in the National Energy Program, and as modified in paragraph (b) above, for activities on provincial lands will require agreement between the Government of Alberta and the Government of Canada.

(i) Rules to prevent the indirect transfer of program benefits from high to low-COR entities with respect to Alberta activities ("leakage rules"), and any subsequent amendment of such rules, will require agreement between the Government of Alberta and the Government of Canada. The Government of Canada is prepared to participate in discussions with Alberta over possible modification of the leakage rules applying to activities within the provinces.

General Conditions

(j) The Governments of Canada and Alberta will cooperate in implementing the Petroleum Incentives Program in the province, with the objective of encouraging increased Canadian ownership and control of the oil and gas industry. To this end, and to facilitate effective program administration and evaluation, there will be close consultation on all aspects of the program or any amendment to the rules governing the program and a free flow of program information between the administering agencies of the Governments of Alberta and Canada.

13. Oil Sands Approval Process

The Government of Alberta will expeditiously provide required governmental approvals for the Alsands and Cold Lake projects. The Governments of Alberta and Canada will cooperate in a review of non-price issues related to these projects. The Government of Canada will establish a "single window" as a focal point for Government of Canada interest in matters relating to new synthetic oil projects.

14. Fiscal Undertakings

The Government of Canada and the Government of Alberta do not intend to introduce any tax, royalty or levy specific to the oil and gas producing industry, other than those set out in this Agreement. The Government of Canada may alter the taxes or expenditures noted below but not in a manner

which will significantly reduce the aggregate revenue flowing respectively either to the Government of Alberta or the oil and gas producing industry. The mechanisms are:

PGRT	-	see section 8
IORT	-	see section 8
PCC	-	see section 6
PIP	-	see section 12
Portion of Natural Gas and Gas Liquids Tax derived from exports of natural gas		
Corporate Income Tax	-	see section 9

The Government of Alberta may alter the taxes, royalties and expenditures noted below but not in a manner which will significantly reduce the aggregate revenues flowing respectively either to the Government of Canada or the oil and gas producing industry. The mechanisms are:

Royalties and Freehold Taxes	-	see section 10
Royalty Relief Programs	-	see section 10
Corporate Income Taxes	-	see section 10
Canadianization Grants for Synthetic Oil	-	see section 11
PIP	-	see section 12

15. General Conditions

During the term of this Agreement, oil and natural gas production in Alberta will be at levels consistent with sound engineering practices.

16. Revenue Estimates

The two governments have estimated the revenues which are likely to accrue to each other and to the oil and gas producing industry over the period of this Agreement. (See Table 3.) Both governments recognize that these estimates are forecasts and actual revenues may vary.

TABLE 3

Revenue Sharing Estimates - 1981-86

(billions of dollars)

Government of Canada	
Canadianization Levy	1.4
Natural Gas and Gas Liquids Tax	12.5
Oil Export Tax	0.2
Incremental Oil Revenue Tax	6.2
Net Petroleum and Gas Revenue Tax[2]	14.3
Corporate Income Tax	19.7
Surplus Petroleum Compensation Charge[1]	-
SUB-TOTAL	54.3
Government of Alberta	
Royalties and Freehold Tax	61.2
Alberta Incentive Programs[3]	(4.2)
Oil Export Tax	.2
Corporate Income Tax	3.9
Land Payments	8.1
Petroleum Incentive Payments	(4.3)
Canadianization Grants for Synthetic Oil	(0.6)
SUB-TOTAL	64.3
Industry	
Cash Flow	73.7
Operating Costs	23.7
Petroleum Incentive Payments	4.3
Land	(8.1)
Canadianization Grants for Synthetic Oil	0.6
SUB-TOTAL	94.2
TOTAL REVENUES	212.8

[1] Surplus Petroleum Compensation Charge is any revenue accruing to the Government of Canada in excess of the amount required to finance oil import compensation and oil qualifying for the New Oil Reference Price.

[2] Petroleum and Gas Revenue Tax less Government of Canada PIP payment.

[3] Includes Alberta drilling and geophysical incentives, new oil and gas royalty holidays and enhanced recovery royalty relief.

Dated at Ottawa this 1st day of September, 1981.

The Government of Canada

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Pierre Elliott Trudeau
Prime Minister of Canada

The Government of Alberta

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Peter Lougheed
Premier of Alberta

Schedule A

Matters Pertaining to Prices for Conventional Old Oil

1. Actual International Price

For the purposes of this Agreement, the "actual international price" of oil is the average cost of imported crude oil laid down at Montreal as determined by the Petroleum Compensation Board.

2. Calculations and Adjustments

For the purposes of section 2 of this Agreement and this Schedule,

(a) the "overall average field price of conventional old oil" shall be calculated by including the average prices of conventional old oil and equivalent marketed by the Alberta Petroleum Marketing Commission;

(b) "transportation costs to Montreal" means the sum of

i) the average cost of moving oil to the terminals of Interprovincial Pipeline as determined by the Alberta Petroleum Marketing Commission, and

ii) the average cost of moving average quality oil (38^{o} API and 0.5% sulphur) through the Interprovincial pipeline to Montreal as established by the National Energy Board;

(c) the overall average field price of conventional old oil shall be adjusted to the average quality of imported crude oil laid down at Montreal employing then current Alberta Petroleum Marketing Commission differentials for density and sulphur.

3. Verification of Prices

The Alberta Petroleum Marketing Commission will verify that average field prices for conventional old oil are in accordance with those specified in Table 1 in section 2 of this Agreement. This will be performed by determining the average field price each month for the most recent three-month period for which actual data are available and by comparing this with the relevant average field price for the same three-month period as specified in Table 1.

Where the three-month average (as adjusted where the calculated average overlaps a scheduled price increase) deviates from the average price specified in Table 1, the Alberta Petroleum Marketing Commission will adjust its prices so that prices in future months are in line with the Table.

4. Conventional Old Oil Price Differentials

(a) Alberta conventional old oil and equivalent will be priced on a block basis, as determined by the Alberta Petroleum Marketing Commission.

(b) Quality differentials applied by the Alberta Petroleum Marketing Commission will be increased to \$0.15/bbl per 1° API and \$0.10/bbl per 0.1% sulphur from their current levels of approximately \$0.03/bbl per 1° API and \$0.02/bbl per 0.1% sulphur. The increase in quality adjustments will be phased in so that for every \$1.00/bbl increase in the average field price, the block quality adjustments for both density and sulphur will increase by \$0.02/bbl.

(c) At the refinery level, to the extent that larger differentials may be required, the Government of Canada may choose to employ a differentiated Petroleum Compensation Charge.

(d) The differentiated Petroleum Compensation Charge would be implemented in such a manner that there is no net revenue gain to the Government of Canada. There would be a gradual phase-in of the differentiated Petroleum Compensation Charge to prevent undue hardship to individual refiners. A final decision by the Government of Canada on the rate of phase-in will take place only after consultation with the provinces and the industry.

5. <u>Price Ceiling</u>

(a) Prior to implementation of each price increase specified in Table 1 in Section 2 of this Agreement, the overall average field price of conventional old oil will be compared with the actual international price for the most recent same three consecutive months for which actual data are available.

(b) Using the above comparison, a check will be made to determine if the next scheduled conventional old oil price increase can be implemented without exceeding the limit of 75% of the actual international price.

(c) If the 75% limit is not exceeded, the total scheduled price increase will be implemented on the scheduled date. If the 75% limit is exceeded, only that portion of the scheduled increase which can fit within the 75% limit will be implemented on the scheduled date. In the latter circumstance, where the full scheduled increase cannot be implemented on the scheduled date, a repeat of the

above check of the 75% limit will be made each month thereafter to determine what portion, if any, of the left-over scheduled increase can then be implemented. This procedure of monthly checks will continue until

i) all the left-over scheduled price increase for the period is implemented, or

ii) the period expires.

(d) In the event that any of the above checks of the 75% limit reveal that the conventional old oil price has already exceeded the 75% limit, there will be no rollback or retroactive adjustment, but no further increases will be implemented until allowed by the check as described above.

Schedule B

New Oil Reference Price

1. Adjustments for Quality Differentials

Prices will include from the outset appropriate quality differentials set bi-annually by the Government of Canada after review of Canadian circumstances and after technical discussions with the Governments of the producing provinces.

Initially the NORP for any particular new oil will be determined by using quality differentials of 22¢ per 1° API and 16.5¢ per 0.1% sulphur when the price for the reference oil is $47.30 per barrel.

When the price for the reference oil is $47.30 per barrel, the NORP would be $49.00 per barrel for conventional new oil of 42° API and 0% sulphur and would be $37.30 per barrel for conventional new oil of 15° API and 3.5% sulphur.

The above differentials will be escalated in line with the increase in the NORP.

2. Calculation of NORP Supplement

The amount of NORP supplement will be determined for any particular new oil other than synthetic oil by calculating the difference between its NORP at the field and the Alberta Petroleum Marketing Commission's field price for conventional old oil of that quality.

The amount of the NORP supplement will be determined for any particular synthetic oil by calculating the difference between its NORP, netted back to the synthetic oil source, and the APMC posted price for conventional old oil of the same ^{o}API and percent sulphur, also netted back to the synthetic oil source.

3. Price Ceiling

(a) Prior to implementation of each price increase specified in Table 2 of section 3 of this Agreement, the NORP will be compared with the actual international price for the most recent same three consecutive months for which actual data are available.

(b) Using the above comparison, a check will be made to determine if the next scheduled NORP increase can be implemented without exceeding 100% of the actual international price.

(c) If the 100% limit is not exceeded, the total scheduled price increase will be implemented on the scheduled date. If the 100% limit is exceeded, only that portion of the scheduled increase which can fit within the 100% limit will be implemented on the scheduled date. In the latter circumstance, where the full scheduled increase cannot be implemented on the scheduled date, a repeat of the above check of the 100% limit will be made each month thereafter to determine what portion, if any, of the left-over scheduled increase can then be implemented. This procedure of monthly checks will continue until

i) all the left-over scheduled price increase for the period is implemented, or

ii) the period expires.

(d) In the event that any of the above checks of the 100% limit reveal that the NORP has already exceeded the 100% limit, there will be no roll-back or retroactive adjustment, but no further increases will be implemented until allowed by the check as described above.

4. <u>Moving Average of Actual International Prices</u>

The "Phased-in Moving Average of Actual International Prices" is to be calculated in two stages; namely

i) by calculating the "two-year moving average of actual international prices" in accordance with paragraph (a) below, and

ii) by calculating the phased-in moving average of actual international prices in accordance with paragraph (b) below.

(a) <u>Calculation of Two-Year Moving Average of Actual International Prices</u>

The two-year moving average of actual international prices shall be determined as follows:

i) It is calculated semi-annually, adjusted January 1 and July 1 of each year.

ii) It is based on arithmetic average of actual international prices in each of the previous four (4) semi-annual periods.

iii) The semi-annual actual international prices which enter the average are themselves arithmetic averages of the monthly actual international prices paid in their respective half-year periods.

iv) Because of lags in the finalization of data, the actual international price used for the first period preceding the calculation period shall be the average price for the first month in that preceding period.

v) The formula for the moving average price shall be:

$$P(t) = SUM \div 4$$

Where:

$$SUM = P(t-1) + P(t-2) + P(t-3) + P(t-4)$$

$P(t)$ = Price in the "t" th period

(b) <u>Calculation of the Phased-in Moving Average in 1985 and 1986</u>

The phased-in moving average of actual international prices shall be calculated on the same general principles as the two-year moving average of actual international prices described in paragraph a above. The phased-in two-year moving average of actual international prices during 1985 and 1986 shall be calculated as described below:

Jan.-June, 1985	P = (1/4) X MA + (3/4) X S
July - Dec., 1985	P = (2/4) X MA + (2/4) X S
Jan.-June, 1986	P = (3/4) X MA + (1/4) X S
July-Dec., 1986	P = MA (i.e., fully phased-in)

WHERE:

P = Phased-in moving average of actual international prices

MA = Two-year moving average of actual international prices

S = Base price for the current period according to Table 2 of section 3 of this Agreement

5. <u>Administration</u>

The NORP for synthetic oil will be administered by the Government of Canada as at present.

The Government of Canada will determine the administration of the NORP for conventional new oil production based on one of the two schemes set out below.

The price for new oil other than synthetic oil will be paid at the same time and in the same manner as the price for old oil. The principal goal is to maintain the current industry "pay day" and to have the money derived from the sale of new oil flow to the producers on that day.

Common to both schemes that follow is the need for the operator of a well or project to apply to the appropriate provincial agency for new oil status for a specific well or project. On approval, copies of certification would be forwarded to the relevant Government of Canada agency, the operator, and the provincial agency responsible for new oil pricing and payments.

The APMC would post prices at each delivery point for new oil and old oil prior to the beginning of the production month - with copies to the Government of Canada agencies concerned.

SCHEME I

- APMC would continue to sell all oil produced from Crown leases as at present.

- APMC would pay the new oil price to the operator of a Crown lease for all new oil produced and would sell it to a buyer at the old oil price. The APMC would claim the difference from the Government of Canada submitting an itemized account. The whole transaction can be completed on "pay day" if the Government of Canada pays the Commission prior to the opening of banking hours on "pay day". As with the present procedure, final reconciliation of volumes and amounts for a production month would occur three months after the end of the production month.

- Owners of freehold crude would sell their new oil to the APMC at the new oil price, which body would then sell at the old price and claim compensation.

- The APMC would prepare monthly estimates of new oil volumes and requisition adequate funds to cover the compensation payment.

- The APMC would provide the Government of Canada with a statement each month showing money received, interest earnings, if any, disbursements and closing balance. Disbursements would be itemized by name of operator, volumes and amount of money.

- The Government of Alberta will provide access to the accounts of the program for purposes of audit and review by the Government of Canada.

SCHEME II

- APMC would continue to sell all oil produced from Crown leases as at present but new oil would be sold at new oil prices.

- Freehold producers would sell all their new oil to the APMC at the new price which would in turn sell it to the first buyer at the new oil price.

- The first buyer of new oil would seek compensation from the Government of Canada.

- To simplify the administration of this proposal, the APMC would sell all the new oil in a pipeline system to the swing buyer of each oil stream.

- The Government of Alberta would provide the Government of Canada with a detailed account each month with respect to prices and volumes of oil purchased at NORP prices from operators of Crown leases and freehold producers and with respect to prices and volumes of oil sold to first users at NORP prices.

6. Prices for Syncrude Production

The phased-in Syncrude moving average of actual international prices for Syncrude production shall be calculated on the same general principles as the two-year moving average described in section 4 (a) of this Schedule. During the two-year phase-in period, however, a lesser number of periods will be used to determine the moving average, as follows:

July-Dec., 1982	-	Based on prices in the first half of 1982
Jan.-June, 1983	-	Based on prices in the first half of 1982 and the last half of 1982
July-Dec., 1983	-	Based on prices in the first half of 1982 through the first half of 1983
Jan.-June, 1984	-	Fully phased-in; based on prices in the first half of 1982 through the last half of 1983

Schedule C

Statement of Principles
Market Development Incentives Payment

1. The Government of Alberta will make Market Development Incentive Payments to the Government of Canada in respect of the period November 1, 1981 up to and including January 31, 1987 to encourage the expansion of gas markets in provinces east of Alberta. The Incentive Payment revenues received by the Government of Canada from the Government of Alberta will be used only for making payments in respect of:
   a) gas transmission utilities to assist in the extension of gas transmission systems into new domestic market areas east of Alberta; and
   b) gas distribution utilities to obtain new domestic markets east of Alberta.

2. The Government of Canada will determine the making of and the amounts of any payments under 1(a) and 1(b).

3. The Government of Canada will ensure that the Incentive Payments will be used for capital expansions of distribution systems and for sales promotion programs, and will not be used to effect general price cuts for natural gas.

4. The Government of Alberta will make Incentive Payments to the Government of Canada beginning January 31, 1982 and at the end of each quarter thereafter, of an amount equal to the product of:

a) thirty percent of the Alberta Border Price which was in effect at the end of the quarter in respect of which the payment is made; and

b) the quantity of "new gas" purchased in that quarter for domestic markets east of Alberta, as measured at the Alberta border.

5. "New gas" means the total volumes purchased and measured at the Alberta border for delivery to domestic markets in each quarter that are in excess of the "base quantity" established for the quarter in respect of which payment is being made.

Any new use of gas after October 31, 1981 to displace non-oil sources of fuel to generate electricity or as a petrochemical or fertilizer feedstock, will not be eligible for an incentive payment and such gas volumes will be deducted from "new gas" sales.

6. The "base quantity" is initially defined as the volume of gas purchased at the Alberta border for domestic markets east of Alberta during each quarter of the gas year November 1, 1980 to October 31, 1981, which is defined as the base year.

A new "base quantity" will be established for each quarter of each gas year subsequent to the base year to reflect conservation. The new base quantity will be 97½% of the base quantity of the corresponding quarter of the previous gas year.

7. It is the intent of the Government of Canada and the Government of Alberta to continue Market Development Incentive Payments as part of any future agreements.

Schedule D

Petroleum Revenue Taxes

1. Resource Allowance for the Petroleum and Gas Revenue Tax

All oil and gas production revenues subject to PGRT will be reduced by a new resource allowance. In aggregate the deduction will be 25% of production revenues but this amount will be distributed amongst taxpayers so that those with an interest in production who are denied the deduction for Crown royalties and provincial mineral taxes will receive the entire benefit. Those with an interest in production whose tax liability is unaffected by the non-deductibility of Crown royalties or provincial mineral taxes will not receive a resource allowance.

2. Incremental Oil Revenue Tax

The Incremental Oil Revenue Tax will be imposed at a rate of 50% of incremental old oil revenues after a deduction for related Crown royalties. Incremental revenue is the difference between the actual revenue received by a person with an interest in production and the revenue which would have been received under the NEP price schedule. The related Crown royalties will be calculated for each well by multiplying the average royalty rate for the well by the incremental revenue. The incremental revenue will be excluded from income for the purposes of income taxation. However, the PGRT will be applied to incremental revenues.

The treatment of different interests for the Incremental Oil Revenue Tax will generally parallel the corresponding rules under PGRT. The portion of any royalty payable out of incremental revenues will be deducted from the tax base of the payor and the tax will apply to the incremental royalty received by the payee.